

# Chapter One: Introduction

Since 1973, various arrangements between Montgomery County and the City of Takoma Park have addressed the phenomenon of “double taxation,” in which city residents pay property taxes and income taxes both to Montgomery County and the City of Takoma Park although only the City delivers the service.

Over the course of the past three decades, the County’s practice for determining what Takoma Park services will be reimbursed, the amount of the reimbursement, and the procedures for reimbursement have varied. Those duplicative services have included police protection, highway and street maintenance, solid waste collection, library and parks and recreation. The current framework was established in 1996, with additional formulae negotiated in 2002 over reimbursement for the City’s delivery of police services.

The foundation of the Montgomery County-Takoma Park reimbursement framework rests upon the determination of what the County *would have spent* had the County performed the service in Takoma Park, *not what the City spends*. The authority for the County’s determination of what it would have spent also lies solely with the County, without any avenue of appeal by the City to a neutral third party. Those limitations have profound cost consequences for the City, given the smaller economies of scale in which the City must work compared to the County, as well as the larger scope and higher quality of services that Takoma Park residents expect to receive.

All of Montgomery County’s service reimbursements to Takoma Park are paid in the form of a rebate. While Maryland counties have the choice to pay their service-duplicating municipalities through either a rebate or a differential (i.e. a direct reduction in the municipal tax rate), Montgomery County has opted to pay its cities a rebate. Payment by rebate means that the delivery of pocketbook relief to Takoma Park residents from double taxation rests upon the prospect, but not certainty, that the City will reduce its tax rate by an amount equivalent to the rebate.

## Background

When Takoma Park became an incorporated municipality in 1890, Montgomery County was a largely rural county, providing few of the services that urban dwellers today expect from local government. During the ensuing century, Montgomery County gradually began to provide services, some of which were already provided by Takoma Park. Even as the County assumed greater responsibility for the delivery of services to an increasingly larger and more urban population, Takoma Park consciously declined to cede its responsibilities to the County for police service, public works, roads and other services. In fact, as the years passed, Takoma Park assumed more responsibility for services. As a result, today the City provides an array of local government services including police protection, sanitation, road construction and maintenance, parks and recreation, even its own library. All of these services and more are also provided by Montgomery County. With that has come a cost to Takoma Park residents.

In addition to their County tax bill, Takoma Park taxpayers pay about two-thirds more for their City tax bill than they pay to the County in property taxes. The County provides many services not provided by the City, including schools, fire and rescue, and health and human services. Subtracting these services from the County tax bill, City residents pay an amount that is about double the County tax for their City-provided services.

The issue of County-City service duplication is not new or unique to Takoma Park. The inherent unfairness of municipal residents being obliged to pay twice for the same services to different levels of government has long been recognized. As early as 1879, the Maryland Court of Appeals upheld a county tax rebate for services rendered by a municipality. This was later affirmed in 1889 and 1914. In 1975, the Maryland legislature authorized tax setoffs where duplication of services occurs. However, the legislature did not require such setoffs.

Double taxation issues have historically been decided on a county-by-county, city-by-city basis. In 1997, the Maryland General Assembly set up a Municipal and County Task Force to sort out the double taxation issues. As a result, legislation was enacted in 1998 requiring that counties and municipalities meet annually to discuss the issue. Minimum requirements were established, such as designating negotiators, establishing a rule that allows municipalities to request a setoff 180 days prior to approval of the County budget, requiring the county to make a budgetary Statement of Intent, and providing the municipality the right to testify before a budget hearing.

Montgomery County paid out its first rebate in 1973, and in 1996 the County adopted a framework establishing a rebate process. That process was the outgrowth of a task force of county and municipal representatives that studied the municipal tax duplication reimbursement program and recommended a series of changes. The new process provides that county tax duplication payments to municipalities are made once a year before September 15th, based on the actual expenditures of the fiscal year two years earlier. Moreover, municipalities are reimbursed based on what the County would have spent had the County performed the service in the municipality. (See Appendix C for a summary of FY05 Montgomery County tax duplication payments to all municipalities in the County.) Future revisions to the framework governing Montgomery County's county tax duplication payments (other than the police rebate) are required to be negotiated collectively by the County and its municipalities, including Takoma Park.

## **Residents' Committee on Tax and Service Duplication Issues**

The Takoma Park City Council established the Residents' Committee on Tax and Service Duplication Issues by a resolution adopted on October 11, 2004 to examine the costs of services delivered by Takoma Park that are duplicative of those provided elsewhere by Montgomery County and paid through City and County property taxes. The 21-member Committee included three representatives of each ward appointed by their Council Member, plus three more at large appointed by Mayor Kathy Porter. The Committee selected Bruce Moyer and Dan Robinson as co-chairs.

The primary focus of the Committee has been to examine the accuracy and fairness of Montgomery County's payment to the City for duplicative services. City Council Resolution 2004-50, adopted by the Takoma Park City Council, directed the Residents' Committee:

- To become knowledgeable of the legal requirements and constraints of municipal tax duplication in the State of Maryland and in Montgomery County and recommend how the city can communicate this information to the public;
- To identify areas where further research is needed concerning tax relief and service duplication;
- To recommend actions the city could take to obtain a fairer tax duplication payment from Montgomery County and to decrease the level of tax duplication paid by city property owners; and
- To provide assistance and guidance in the development of a resident survey, specifically in regard to those questions concerning service delivery.

The City Council also directed the Committee to provide a final report according to a schedule to facilitate use in discussions of the City's FY 2006 budget. The Committee established a series of working groups focused on the county reimbursement process, including the costs and quality of police protection, public works, housing and economic development, parks and recreation and library services. City Manager Barbara Matthews and Community and Government Liaison Suzanne Ludlow provided expert assistance and support to the Committee. County and City department heads and other staff members also provided considerable assistance. The Committee is deeply appreciative of this wide-ranging cooperation and support.